# Eco-Shop Marketing (ECOSHOP MK)

## 2QFY26: Sharp SSSG Contraction But Within Expectations

| **HOLD** (Maintained) | |
|---|---|
| Share Price | RM1.63 |
| Target Price | RM1.70 |
| Upside | 4.3% |

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## Highlights

- Earnings come within expectations despite sharp sustained SSSG contraction, which was more than offset by expanded margins.
- SSSG has since displayed encouraging signs of recovery.
- Maintain HOLD as Eco-Shop's attractive growth appears largely priced in. Unchanged target price of RM1.70.

### 2QFY26 Results

| Year to 31 May (RMm) | 2QFY26 | qoq % chg | yoy % chg | 1HFY26 | yoy % chg | Comments |
|---|---|---|---|---|---|---|
| **Revenue** | 714.8 | 4.5 | 2.9 | 1399.2 | 2.7 | 2QFY26 SSSG of -12.3% was more than offset by increased store count. |
| **GP** | 234.0 | 7.5 | 22.6 | 451.7 | 25.4 | Uplift from improved gross margins. |
| **EBITDA** | 126.4 | 3.8 | 14.1 | 248.1 | 25.0 | |
| PBT | 84.9 | 5.9 | 14.0 | 165.1 | 29.0 | |
| **Profit** | 61.9 | 5.3 | 15.5 | 120.6 | 29.5 | |
| **Core PATAMI** | 61.9 | 5.3 | 15.5 | 120.6 | 32.7 | Within expectations. |
| **Margins** | (%) | qoq ppt chg | yoy ppt chg | (%) | yoy ppt chg | |
| Gross Profit | 32.7 | 0.9 | 5.3 | 32.3 | 5.8 | Margin uplift following:- price exercise, stronger ringgit and reclassification of supplier rebate. |
| EBITDA | 17.7 | -0.1 | 1.7 | 17.7 | 3.2 | Gains in GP margin offset higher wages and electricity tariff. |
| Eff. tax rate | -27.1 | -0.4 | 1.0 | -26.9 | 0.2 | |
| Core Profit | 8.7 | 0.1 | 0.9 | 8.6 | 2.0 | |

*Source: Eco-Shop Marketing, UOB Kay Hian*

## Analysis

- **Within expectations.** Eco-Shop Marketing (Eco-Shop) registered a 2QFY26 core profit of RM61.9m (15.5% yoy, 5.3% qoq) that brought 1HFY26 core profit to RM120.6m (+32.7% yoy). This falls within expectations with earnings accounting for 49% of both our and consensus estimates. Highlights for the quarter include SSSG remaining soft at -12.3% for the quarter, but earnings grew nonetheless thanks to its raised ASPs and favourable forex. SSSG has since trended favourably, on track for it to possibly turn positive in Feb 26.

### Key Financials

| Year to 31 May (RMm) | 2024 | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|---|
| Net turnover | 2,404.0 | 2,787.5 | 3,229.8 | 4,179.3 | 4,901.1 |
| EBITDA | 316.8 | 376.7 | 456.2 | 543.1 | 659.8 |
| Operating profit | 213.3 | 253.8 | 313.0 | 368.3 | 420.4 |
| Net profit (rep./act.) | 177.3 | 212.4 | 258.1 | 300.3 | 338.9 |
| Net profit (adj.) | 177.3 | 212.4 | 258.1 | 300.3 | 338.9 |
| EPS | 3.3 | 3.7 | 4.5 | 5.2 | 5.9 |
| PE | 49.6 | 44.1 | 36.3 | 31.2 | 27.7 |
| P/B | 16.0 | 9.5 | 8.5 | 7.7 | 6.8 |
| EV/EBITDA | 28.1 | 23.7 | 19.2 | 17.1 | 14.1 |
| Dividend yield | 1.1 | 1.6 | 1.5 | 1.9 | 2.2 |
| Net margin | 7.4 | 7.6 | 8.0 | 7.2 | 6.9 |
| Net debt/(cash) to equity | 13.4 | 10.4 | (2.3) | 38.1 | 34.7 |
| Interest cover | 14.7 | 15.3 | 21.7 | 14.9 | 13.4 |
| ROE | 23.0 | 20.3 | 23.3 | 25.8 | 27.5 |
| Consensus net profit | n.a | n.a | 254.4 | 307.2 | 357.0 |
| UOBKH/Consensus (x) | n.a | n.a | 1.0 | 1.0 | 1.0 |

*Source: Eco-Shop Marketing, Bloomberg, UOB Kay Hian*

### Stock Data

| | |
|---|---|
| **GICS Sector** | Consumer Discretionary |
| **Bloomberg ticker** | ECOSHOP MK |
| **Shares issued (m)** | 5,749.0 |
| **Market cap (RMm)** | 9,141.0 |
| **Market cap (US$m)** | 2,162.7 |
| **3-mth avg daily t'over (US$m)** | 4.1 |

### Price Performance (%)

| **52-week high/low** | | | | **RM1.66/RM1.13** |
|---|---|---|---|---|
| **1mth** | **3mth** | **6mth** | **1yr** | **YTD** |
| 8.2 | 18.7 | 17.8 | n.a | 8.9 |

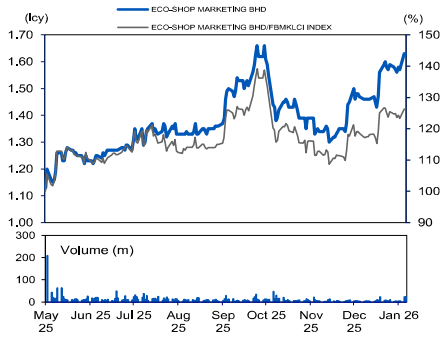
### Major Shareholders

| | % |
|---|---|
| Dato' Sri Lee | 75.9 |

### Balance Sheet Metrics

| | % |
|---|---|
| FY26 NAV/Share (RM) | 0.19 |
| FY26 Net Debt/Share (RM) | 0.00 |

### Price Chart




*Source: Bloomberg*

### Company Description

Eco-Shop is Malaysia's leading fixed-price retailer, offering affordable everyday essentials through a fast-growing nationwide store network.

- **SSSG weakness persists but light at the end of the tunnel emerges.** 2QFY26 revenue grew 2.9% yoy (-4.5% qoq) amid SSSG contracting 12.3% yoy that was offset by higher store count. While steep, the contraction represented a slight deceleration from -12.7% in 1QFY26. The sharp SSSG contraction is attributed to: a) weak consumer sentiment, and b) price adjustment impact. SSSG has since trended favourably and could turn positive in Feb 26. However, we err on the side of caution as the government cash handout is due to be disbursed on 9 February and the previous round of disbursement largely diverted foot traffic away to staple focused retailers instead. At this juncture, we retain our assumption of a -6.0% SSSG for FY26.
- **Expanded gross margin provides uplift.** 2QFY26 gross margin expanded by 5.3ppt yoy (+0.9ppt qoq) to 32.7% following its price exercise in Apr 25, strengthening of the ringgit vs renminbi and reclassification of supplier rebate. Management indicated gross margins for 3QFY26 may improve marginally given that it has ended its promotional pricing strategies.
- **Core margins slightly tempered but growth seen nonetheless.** In terms of operating margins, gains were tempered to 1.7ppt yoy (-0.1ppt qoq). Higher overhead expenses on a yoy basis were due to the higher minimum wage impact and electricity tariffs. Core PAT margins were tempered a little further to 0.9ppt yoy (+0.1ppt qoq) following higher interest expense. Nevertheless, core PAT grew by 15.5% yoy despite the sharp SSSG contraction.

## Valuation/Recommendation

- **Maintain HOLD and target price of RM1.70.** Thanks to robust consumer sentiment aided by the MyKasih handouts and the Visit Malaysia 2026 theme, retailers across the sector have re-rated meaningfully. We believe Eco-Shop is now fairly valued. Hence, we maintain our HOLD recommendation.
- We value Eco-Shop at 34.5x 2026F PE, which is the average of our valuation for 99SM (38.9x) and Mr. DIY (30.0x). However, 99SM does deserve a valuation premium given its index-linked status and superior capital efficiency. While Eco-Shop merits a premium to Mr. DIY driven by its more compelling growth trajectory from a significantly lower store base.

## Earnings Revision/Risk

- **No changes to earnings.** Key risks include the strengthening of the renminbi against the ringgit and a sharp deterioration in consumer sentiment.
- For every +1% change in the ringgit vs the renminbi, we estimate that Eco-Shop's earnings could be uplifted by +3.5%, all else holding constant.

### Margin Assumptions

| | FY26F | FY27F | FY28F |
|---|---|---|---|
| Avg. base ASP (RM) | 2.60 | 2.63 | 2.70 |
| Gross margin (%) | 31.0 | 30.5 | 30.9 |
| Operating margin (%) | 16.0 | 14.8 | 15.3 |

*Source: Eco-Shop, UOB Kay Hian*

### Growth and Margin Outlook

| | FY25F | FY26F | FY27F |
|---|---|---|---|
| Revenue (RMm) | 3230 | 4179 | 4901 |
| Growth yoy (%) | 15.9 | 29.4 | 17.3 |
| PAT (RMm) | 258 | 300 | 339 |
| Growth yoy (%) | 21.5 | 16.4 | 12.9 |
| 3-year CAGR (%) | 17.5 | 20.2 | 20.7 |
| Gross Margin (%) | 31.0 | 30.5 | 30.9 |
| EBIT Margin (%) | 11.5 | 10.7 | 10.4 |
| PAT Margin (%) | 8.0 | 7.2 | 6.9 |

*Source: Eco-Shop, UOB Kay Hian*

### Environmental, Social, Governance (ESG)

**Environmental**

- Energy & emission efficiency. Eco-Shop achieved a 2.5% reduction in emission intensity in FYE 2024, lowering it from 24.63 to 24.02 tCO2e per million revenue in ringgit, even as store count grew from 240 to 297. LED lighting and passive architectural designs at key distribution centres drive energy conservation.

**Social**

- Workplace safety & inclusion. Eco-Shop has established a Health and Safety Committee and an OSHA committee that meets quarterly. These bodies oversee safety training, risk audits, and workplace wellness for its over 6,000 employees across operations.

**Governance**

- ESG oversight and independent validation. While Eco-Shop has not yet received external ESG certification, its sustainability disclosures are incorporated in the IPO prospectus. Financial data, including ESG-linked reporting elements, has been reviewed and assured by PricewaterhouseCoopers (PwC) as part of their reasonable assurance report on the pro forma financials submitted to the Securities Commission Malaysia.

*Source: Eco-Shop, UOB Kay Hian*

## Profit & Loss

| Year to 31 May (RMm) | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|
| **Net turnover** | **2,788** | **3,230** | **4,179** | **4,901** |
| EBITDA | 377 | 456 | 543 | 660 |
| Deprec. & amort. | 123 | 143 | 175 | 239 |
| EBIT | 254 | 313 | 368 | 420 |
| Total other non-operating income | 52 | 60 | 77 | 91 |
| Associate contributions | 0 | 0 | 0 | 0 |
| Net interest income/(expense) | (25) | (21) | (36) | (49) |
| **Pre-tax profit** | **281** | **352** | **409** | **462** |
| Tax | (77) | (94) | (109) | (123) |
| Minorities | 0 | 0 | 0 | 0 |
| **Net profit** | **212** | **258** | **300** | **339** |
| Net profit (adj.) | 212 | 258 | 300 | 339 |

## Balance Sheet

| Year to 31 May (RMm) | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|
| Fixed assets | 812 | 1,031 | 1,512 | 1,520 |
| Other LT assets | 143 | 29 | 29 | 29 |
| Cash/ST investment | 21 | 124 | 57 | 51 |
| Other current assets | 874 | 1,008 | 1,272 | 1,497 |
| **Total assets** | **1,851** | **2,192** | **2,871** | **3,097** |
| ST debt | 124 | 99 | 99 | 99 |
| Other current liabilities | 371 | 352 | 455 | 524 |
| LT debt | 0 | 0 | 425 | 425 |
| Other LT liabilities | 366 | 635 | 666 | 687 |
| Shareholders' equity | 990 | 1,106 | 1,226 | 1,361 |
| Minority interest | 0 | 0 | 0 | 0 |
| **Total liabilities & equity** | **1,851** | **2,192** | **2,871** | **3,097** |

## Cash Flow

| Year to 31 May (RMm) | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|
| **Operating** | **319** | **227** | **295** | **413** |
| Pre-tax profit | 289 | 352 | 409 | 462 |
| Tax | (72) | (94) | (109) | (123) |
| Deprec. & amort. | 123 | 143 | 175 | 239 |
| Associates | 0 | 0 | 0 | 0 |
| Working capital changes | (21) | (173) | (179) | (164) |
| Other operating cashflows | 1 | (1) | (1) | (2) |
| **Investing** | **(520)** | **(89)** | **(509)** | **(99)** |
| Capex (growth) | (118) | (90) | (510) | (101) |
| Investments | 0 | 0 | 0 | 0 |
| Proceeds from sale of assets | 0 | 0 | 0 | 0 |
| Others | (402) | 1 | 1 | 2 |
| **Financing** | **166** | **(35)** | **147** | **(320)** |
| Dividend payments | (150) | (142) | (180) | (203) |
| Issue of shares | 420 | 0 | 0 | 0 |
| Proceeds from borrowings | 0 | 200 | 0 | 0 |
| Loan repayment | 0 | 0 | 425 | 0 |
| Others/interest paid | (103) | (93) | (98) | (116) |
| **Net cash inflow (outflow)** | **(34)** | **103** | **(67)** | **(6)** |
| **Beginning cash & cash equivalent** | **55** | **21** | **124** | **57** |
| Changes due to forex impact | 0 | 0 | 0 | 0 |
| **Ending cash & cash equivalent** | **21** | **124** | **57** | **51** |

## Key Metrics

| Year to 31 May (%) | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|
| **Profitability** | | | | |
| EBITDA margin | 13.5 | 14.1 | 13.0 | 13.5 |
| Pre-tax margin | 10.1 | 10.9 | 9.8 | 9.4 |
| Net margin | 7.6 | 8.0 | 7.2 | 6.9 |
| ROA | 10.5 | 11.8 | 11.9 | 12.8 |
| ROE | 20.3 | 23.3 | 25.8 | 27.5 |
| **Growth** | | | | |
| Turnover | (13.7) | 15.9 | 49.9 | 75.8 |
| EBITDA | (17.4) | 21.1 | 44.2 | 75.2 |
| Pre-tax profit | (20.2) | 25.3 | 45.8 | 64.5 |
| Net profit | (17.7) | 21.5 | 41.4 | 59.6 |
| Net profit (adj.) | 19.8 | 21.5 | 16.4 | 12.9 |
| EPS | (17.7) | 21.5 | 41.4 | 59.6 |
| **Leverage** | | | | |
| Debt to total capital | 12.5 | 8.9 | 42.7 | 38.5 |
| Debt to equity | 12.5 | 8.9 | 42.7 | 38.5 |
| Net debt/(cash) to equity | 10.4 | (2.3) | 38.1 | 34.7 |
| Interest cover | 15.3 | 21.7 | 14.9 | 13.4 |

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